

January 30, 2013

Key Efficiency
Opportunities Identified:

- Although future opportunities for combined health insurance purchasing may generate cost savings for local governments, approaching this issue with current unknowns related to Affordable Care Act implementation seemed unwise to the CEC at this time.
- The CEC has compiled a list of general best practices related to health insurance for local governments' benefit.
- It recommends further review of shared or self-insurance possibilities after more information on Illinois health insurance exchange and other ACA changes is available.

The Citizens' Efficiency Commission
Room 212
200 South 9th Street
Springfield, Illinois 62701

Phone: 217.535.3110

Fax: 217.535.3110

Email:

CitizensEfficiency@gmail.com

<http://www.ssrcpc.com>



Citizens' Efficiency Commission Report: Governmental Employee Health Insurance Best Practices

Introduction

This report represents an informal educational brief by the Citizens' Efficiency Commission. All information has been compiled, researched, and validated by the CEC and its volunteers. The Commission expresses its hope that relevant local leaders will review the materials presented below and utilize them as needed to generate savings.

The CEC recommends that local jurisdictions review the education materials provided by the CEC as assistance when making decisions pertaining to the procurement of health care insurance.

Background

As a national topic of debate, the rising costs of health care and health care insurance present an area in which due diligence is required when making decisions. A potentially overwhelming array of statistics related to health insurance costs to individuals, governments, and corporations exists. In several meetings with leaders of small municipalities, the CEC received feedback that health insurance costs can be crippling for small units of local government. Accordingly, the CEC approved a finding related to future research on joint health insurance purchasing among units of local government.

In other regions of Illinois, local governments have successfully entered into cooperatives to purchase self insurance. When studying these efforts, representatives from McHenry County noted that "self-funded health insurance cooperatives pool the resources of many organizations to cover all claims up to a specific amount, reinsurance pays for claims above the specific amount, ...[and] premiums for each organization are determined based on the community rate, individual organization's risk level and types of plans offered to employees."¹ Locally, some success has occurred with self-insurance by single jurisdictions such as Sangamon County. The CEC hoped to consider the benefits of expanding these efforts in a cooperative format.

In this research process, the CEC learned that uncertainties in the health insurance market based on the implementation of the Patient Protection and Affordable Care Act (ACA) of 2010 would make any CEC recommendation potentially outdated before it could be implemented. As such, this brief provides an overview of Illinois' current

¹ McHenry County Council of Governments. "Report of the McHenry County Council of Governments Ad Hoc Committee on Health Insurance: Feasibility and Cost-Benefit Study of a Self-funded Health Insurance Cooperative."

standing related to the ACA, before transitioning into best practices for local government insurance purposes that are broadly applicable even in light of ACA changes.

Overview of Affordable Care Act²

The Patient Protection and Affordable Care Act set in motion many requirements affecting the health care and health care insurance industries in the United States. The law comes into effect in many different phases, some of which have already been implemented. Generally speaking, the provisions of the law can be divided into a few categories, including: Medicaid expansion, health insurance exchanges, individual and employer mandates, and reductions in Medicaid Disproportionate Share hospital payments.

The portions of the ACA that mandate expansions of state Medicaid programs will begin to take effect in 2013. For instance, in October, states will begin to receive two additional years of funding for the Children's Health Insurance (CHIP) program—for children in families with incomes up to 133% of the federal poverty level.

Health insurance exchanges under the ACA will perform functions such as providing determinations for eligibility and allowing individuals to enroll in qualified health plans or Medicaid. Exchanges represent the area of ACA implementation with the most uncertainty. A health insurance exchange is a structured health insurance marketplace. The Act sets federal standards for insurance coverage. For instance, under the ACA the minimum standard of an employer plan is an actuarial value at or above 60% and employee contributions not exceeding 9.5% of his or her reported W-2 adjusted gross income. Under the ACA, employees not offered health insurance at the federal minimum standard by their employer will receive a tax credit, and can purchase a plan offered in an exchange. Employers with fewer than 50 employees can opt to have their employees covered by a plan offered in an exchange.

Employers with 50 or more employees that do not offer coverage to their employees will be subject to penalties if any employee receives a government subsidy for health coverage. The penalty amount is up to \$2000 annually for each full-time employee, excluding the first 30 employees. Employers in this category who offer coverage, but whose employees still receive tax credits because their plans do not meet minimum federal standards, will be subject to a fine of \$3000 for each worker receiving a tax credit, up to an aggregate cap of \$2,000 per full-time employee.³ Employers will be required to report to the federal government on health coverage they provide.

Also in October of 2013, states' health insurance exchange enrollment is scheduled to begin, with the actual policies scheduled to go into effect in January of 2014. Individual states will determine their implementation method for their health insurance exchanges. A handful of states, including Illinois, have opted to partner with the federal government for at least the first year of this program. Implementation decisions and efforts have been unclear to date in many states, and the CEC anticipates that any recommendation it

² Cardwell, Anita. 2012. "Affordable Care Act implementation moves to the states." *National Association of County Officials: County News*. 44(24).

³ This applies to an employer that offers a health care insurance plan that fails to meet federal standards detailed above. Employees are not able to go into a plan in an exchange (and receive a tax credit) if their employer offers a plan that meets the federal minimum standards.

may make could be altered in the next year as more about Illinois' exchange becomes known.

Finally, the ACA provides for some incentives for implementation efforts in the initial years of transition. For instance, local governments should be aware of the small employer Health Care Tax Credit. To be eligible, entities must have fewer than 25 full-time equivalent employees (FTE), pay average annual wages of less than \$50,000 per FTE, and pay at least half of employee health insurance premiums (based on single coverage). For tax years 2010-2013, the maximum credit is 25% of premiums for small tax-exempt employers. The credit will gradually be phased out, but should be considered in terms of local business, non-profit, and government eligibility in early years.⁴

Best Practices⁵

In a sense, making decisions about health insurance providers for local government employees can be considered like the process of buying a used car. Each purchase option has strengths and weaknesses. A bad decision, which may not be entirely evident at first glance, could result in significant extra out of pocket expenses. When buying a used car, an individual can take the time to peruse advertisements in the paper, physically visit small dealerships in the area, or visit a mega-dealership with hundreds of options. In this same vein, local governments' health insurance could be procured by partnering with a larger entity such as an insurance co-op, through the normal bidding process, or in the future through a statewide health insurance exchange—the equivalent of larger dealership.

Regardless of procurement method, some general practices can help local governments make the best possible decisions related to employee health insurance purchases:

- a. ***Bid out insurance purchases at least annually.*** By “shopping” for insurance more frequently, local governments and other insurance buyers can ensure that they are getting competitive pricing. While in some cases there may be a “run out” fee applied to larger businesses, generally local governments with fewer than 50 employees should be able to freely move between policies and providers.
- b. ***Critically review existing partnerships.*** Local governments often have limited staff resources, and therefore may be inclined to continue with their current insurance provider or utilize the state's Central Management Services health insurance group policy. These options may not always be the most cost effective, and should be reviewed critically.
- c. ***Implement wellness programs.*** If insurance providers are aware that a potential client has voluntarily taken steps to maintain employee wellness programs, they may be more likely to seek out a business relationships and offer favorable terms. Additionally, covered employees may take advantage of programs and benefit from those programs offered. These program offerings may incrementally reduce

⁴ R.W. Troxell & Company. 2012. “Health Care Tax Credit for Small Employers. Health Care Reform Legislative Brief.

⁵ Information related to best practices, unless otherwise cited, was compiled with the assistance of Maripat Cline, Producer, R.W. Troxell & Company.

long term health care costs to the provider. Wellness programs have increasingly been a part of the national answer to the rising cost of health insurance in varying extents from purely voluntary enrollment to an employment requirement over the last three decades.⁶

- d. **Annual physicals for employees.** The information gathered at an annual physical may, through preventive health treatments, assists in preventing health conditions from becoming larger and therefore more costly health issues. Some employers nationwide have mandated annual physicals for employees. While this is an available option, it should be carefully examined in light of all legal and organizational implications.
- e. **Tobacco cessation incentives.** The Center for Disease Control suggests that discontinued use of tobacco products is associated with health benefits including lowered risk of cancer, heart disease, and stroke; reduced respiratory symptoms; reduced risk of developing chronic obstructive pulmonary disease (COPD), and decreased likelihood of complications during pregnancy. Local governments may choose to provide incentives for employees who discontinue tobacco use.

Finally, the CEC finds that several other important considerations may develop as the deadlines associated with the ACA arrive. As more information is available on both the state and federal level, the CEC hopes to update local jurisdictions of changes to the law. The CEC has access to a number of informational reports that it can provide local governments desiring more information on the ACA.⁷ The CEC also suggests additional review of shared health insurance purchasing by local governments once the ACA changes have stabilized.

The Citizens' Efficiency Commission offers its support for these efforts. If the CEC can provide any further assistance in facilitating efforts toward more efficient health insurance procurement, it would be pleased to do so.

⁶ More information about the legality of wellness programs, both mandated and voluntary, can be found in "The Littler Report on Employer Mandated Wellness Initiatives: Respecting Workplace Rights While Controlling Health Care Costs" which is located at www.littler.com/publication-press/publication/employer-mandated-wellness-initiatives-respecting-workplace-rights-whi.

⁷ The CEC would like to express appreciation to R.W. Troxell & Company for these informational documents and for assistance in developing its recommendation.